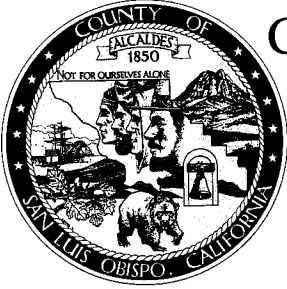


**COUNTY OF SAN LUIS OBISPO BOARD OF SUPERVISORS  
AGENDA ITEM TRANSMITTAL**

(1) DEPARTMENT Health Agency / Public Health Department		(2) MEETING DATE January 24, 2006		(3) CONTACT/PHONE Greg Thomas, M.D. (805) 781-5519	
(4) SUBJECT Agreement with Medical Management Strategies for Provision of Clinical Laboratory Billing Services					
(5) SUMMARY OF REQUEST The Clinical Laboratory recently lost a 1.0 FTE experienced biller due to retirement and the remaining 0.5 FTE Senior Account Clerk has been out on medical leave. Turnover of employees has been high due to the uncertain future of the lab. This has affected the ability to maintain high rate, accurate and complete patient billing information. Given the decreased ability to collect aging bills from the 2004/05 fiscal year, as well as the first half of the 2005/06 fiscal year, there is an urgent need to contract for billing services. Medical Management Strategies (MMS) is an independent health care management services company, specializing in computerized billing and collections. An agreement with MMS will allow for collection of revenue for Clinical Lab, improving Clinical Laboratory billings and collections from the historical 47.2 percent to an estimated 55% for current billings and 50% for accounts that are over 90 days.					
(6) RECOMMENDED ACTION It is recommended that the Board approve the source agreement (Clerk's File) with Medical Management Strategies (MMS) and waive the County Request for Proposal (RFP) requirement for this agreement to perform selective third party billing for Clinical Laboratory services for a limited period of time. This agreement allows for an experienced, effective medical billing service company to collect on old and current Accounts Receivable for the Clinical Laboratory.					
(7) FUNDING SOURCE(S) Fees		(8) CURRENT YEAR COST \$ 24,999		(9) ANNUAL COST \$153,999	
(10) BUDGETED? <input type="checkbox"/> YES <input type="checkbox"/> N/A <input checked="" type="checkbox"/> NO					
(11) OTHER AGENCY/ADVISORY GROUP INVOLVEMENT (LIST): Administrative Office, County Counsel, Purchasing Division/General Services					
(12) WILL REQUEST REQUIRE ADDITIONAL STAFF? <input checked="" type="checkbox"/> No <input type="checkbox"/> Yes, How Many? <input type="checkbox"/> Permanent <input type="checkbox"/> Limited Term <input type="checkbox"/> Contract <input type="checkbox"/> Temporary Help					
(13) SUPERVISOR DISTRICT(S) 1st, 2nd, 3rd, 4th, 5th <u>All</u>			(14) LOCATION MAP <input type="checkbox"/> Attached <input checked="" type="checkbox"/> N/A		
(15) AGENDA PLACEMENT <input checked="" type="checkbox"/> Consent <input type="checkbox"/> Hearing (Time Est. _____) <input type="checkbox"/> Presentation <input type="checkbox"/> Board Business (Time Est. _____)			(16) EXECUTED DOCUMENTS <input type="checkbox"/> Resolutions (Orig + 4 copies) <input checked="" type="checkbox"/> Contracts (Orig + 4 copies) <input type="checkbox"/> Ordinances (Orig + 4 copies) <input type="checkbox"/> N/A		
(17) NEED EXTRA EXECUTED COPIES? <input checked="" type="checkbox"/> Number: <u>1</u> <input type="checkbox"/> Attached <input type="checkbox"/> N/A			(18) APPROPRIATION TRANSFER REQUIRED? <input type="checkbox"/> Submitted <input type="checkbox"/> 4/5th's Vote Required <input checked="" type="checkbox"/> N/A		
(19) ADMINISTRATIVE OFFICE REVIEW <div style="text-align: center; margin-top: 20px;">OK <i>Pan Bucksh</i></div> <div style="text-align: right; margin-top: 20px;"><i>B-23</i> <i>(1-24-06)</i></div>					



# County of San Luis Obispo • Public Health Department

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Gregory Thomas, M.D., M.P.H.  
County Health Officer  
Public Health Director

TO: Board of Supervisors

FROM: Gregory Thomas, M.D., M.P.H., Public Health Administrator

DATE: January 24, 2006

SUBJECT: Agreement with Medical Management Strategies for Provision of Clinical Laboratory Billing Services

## Recommendation

It is recommended that the Board of Supervisors approve the sole source agreement (Clerk's File) with Medical Management Strategies (MMS) and waive the County Request for Proposal (RFP) requirement for this Agreement to perform selective third party billing for County's Clinical Laboratory services. This Agreement allows for an experienced, effective medical billing service company to collect payments on old and current Accounts Receivable for the County's Clinical Laboratory.

## Discussion

San Luis Obispo County's Clinical Laboratory became part of the Health Agency on July 1, 2004. With a budgeted staff of 20 FTEs, goals were set to perform laboratory testing at a core facility with seven (7) remote draw stations. Laboratory Assistants, Administrative Assistants, Senior Account Clerks and Clinical Laboratory Technologists were trained to use an automated Laboratory Information System for registering and testing patients, as well as, obtaining billing information for patients, third party insurance carriers and submitter groups. Laboratory Assistant staff, largely made up of temporary help employees, is responsible for gathering information from patients that is critical to effective billing. Turnover of employees, especially lab assistants who get the necessary information from patients before obtaining lab samples in the 7 remote draw stations, has been high due to the uncertain future of the lab. This has affected the ability to maintain a high rate accurate and complete patient billing information. Currently, bills cannot be electronically submitted due to the need for manual review and corrections necessary on 80% of the statements. The level of difficulty involved in laboratory billing requires more expertise than 1.5 FTE Senior Account Clerks can offer. The Clinical Laboratory recently lost the 1.0 FTE experienced biller on staff that had been involved in these activities, due to her retirement. The remaining 0.5 FTE Senior Account Clerk has been out on medical leave. The Clinical Lab is currently operating without any billing

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staff. The Administrative Assistants, Laboratory Assistants and technical staff are performing multiple tasks trying to continue their assigned duties while handling billing calls.

At fiscal year-end 2004/05, the outstanding billed charges were at \$1,502,970, of which 47.2% should have been collectible by Laboratory staff, which lead to a fiscal year-end 2004/05 accrual of \$710,062. At this time there is an accrual balance of \$137,947. Medical Management Strategies proposes to collect \$322,981 of what is left of aged Accounts Receivable from the 2004/05 fiscal year. This would increase the accrual revenue for 2004/05 to \$895,096. MMS has also stated that up to 55% of the 2005/06 billed charges might be collectible. Old accounts will be harder to collect due to the turnaround time for collections extending beyond cutoff dates, and a portion of revenue may have been lost. Medi-Cal allows six months for primary billing and follow-up. Medicare allows one year. Some private insurance carriers allow sixty (60) to ninety (90) days.

Medical Management Strategies, (MMS), is an independent health care management services company, locally owned and operated, that specializes in computerized billing and collections. It is the largest medical billing service on the Central Coast. Billing information can be electronically transferred weekly from the Clinical Lab billing system to the MMS billing system. MMS has a team of 45 experts who can review statements from insurance carriers and then forward them electronically to improve collections. MMS has estimated that services billed for the 2005/06 fiscal year are averaging \$750,000 per quarter. Of this billed amount, MMS estimates revenue at \$375,000, a 50% collection rate for the first quarter of 2005/06, and \$412,500 for every quarter thereafter (a 55% collection rate). Turnaround time on collections with MMS will average three months. Turnaround time for response to billings in the past year and a half has averaged a minimum of six (6) months. With MMS, fewer third party insurance claims will be rejected; and payment turnaround will drastically improve. MMS believes revenue recovery could increase from 47.2%, (historical recovery rate by Laboratory staff), to potentially as high as 55% with improved initial electronic billing and a team of experts to perform follow up procedures. MMS would require timely collection of all necessary information and correct input into the Lab's automated system on at least 90% of the patients billed, ( 90% "clean claims").

Additionally, California Procedural Testing (CPT) codes require review at regular intervals to remain in compliance with State and federal regulations. MMS will perform these reviews and update the Clinical Lab system as necessary. Advantages to outsourcing billing include reduced County expenses for staffing (vacant 1.0 FTE Senior Account Clerk savings of \$38,843 for 2005/06), claim forms, postage, office supplies as well as reduced loss of revenue due to lowering the level of write-offs that could have been collected. There will be higher reimbursements and fewer days of outstanding billed services. A fluctuating Lab staff, due to turnover, vacations, and sick leave, have had a negative effect on Clinical Lab billing. Through communicating with the Laboratory staff, MMS can help reduce errors made at the time of service.

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Clinical Laboratory is requesting this sole source Agreement, waiving the RFP process, for a limited-time period to execute this contract for bills generated by the Laboratory through August 31, 2006. This Agreement could be terminated sooner if the Board directs the County Clinical Laboratory to be closed prior to that date. Given the decreased ability to collect aged bills from the 2004/05 fiscal year, as well as the first half of the 2005/06 fiscal year, there is an urgent need to contract for billing services as soon as possible. The Laboratory has experienced difficulty in recruiting permanent staff due to the recommended closure of the facility. Should the Board of Supervisors determine to continue operation of the Clinical Laboratory, an RFP will be issued to determine the most favorable service. Re-evaluation of continued billing by County staff would also be performed.

#### Other Agency Involvement/Impact

The Public Health Department has conferred with the Administrative Office, and County Counsel has approved the language of the Agreement. The Department consulted with the Purchasing Division of General Services regarding the sole source justification and process.

#### Financial Considerations

At the end of FY 2004/05, the Clinical Lab had received \$1,147,005 and estimated an accrual of \$710,063, of which there is still \$137,947 outstanding. MMS estimates that \$322,981 can still be collected from the 2004/05 billed charges. This is an increase to the accrual of \$185,035. A requisition currently exists, up to a maximum of \$25,000, to cover the 8% charge that MMS will be paid for 2004/05 fiscal year's Accounts Receivable that was not included in the 2005/06 budget. This cost is offset by the retirement of a Sr. Account Clerk whose position remains vacant.

In the 2005/06 fiscal year, Clinical Lab billings for third party insurance carriers and guarantors are averaging \$750,000 per quarter. Of this, MMS estimates collections of \$375,000 for the first quarter of 2005/06 and a potential \$412,500 for each quarter thereafter. Annualized, this estimated net revenue from third party carriers and guarantors will be \$1,612,500. MMS services' cost of collections, at 8% of billed charges, for the 2005/06 fiscal year could be up to a maximum of \$129,000. In addition, submitter billing performed by Clinical Lab staff, (collected at 70% of billed charges), will provide estimated revenue of \$395,243. Total estimated revenue could potentially increase from a budgeted \$1,953,664 to \$2,007,743. The increased expenses of up to \$129,000 should be more than offset by \$196,000 additional revenue and by savings realized in the second quarter budget of \$40,321 in staff vacancies. Most importantly, it will avert a precipitous drop in collections that will result from the lack of current billing. The expense for MMS was not included in the adopted 2005/06 Clinical Laboratory budget.

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### Results

This Agreement will allow for the collection of revenue for Clinical Laboratory. Currently, the Lab is operating without any biller on site. MMS can improve Clinical Laboratory billings and collections from the historical 47.2 percent to an estimated 55% for current billings and 50% for accounts that are over 90 days old with a net increase of up to \$67,000. .

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